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MICROFINANCE AND HIV/AIDS: TOOLS FOR MAKING INSTITUTIONAL CHANGES IN RESPONSE TO HIV/AIDS

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Microfinance and HIV/AIDS: Tools for Making Institutional Changes in Response to HIV/AIDS

*A Companion Guide to Microfinance and HIV/AIDS: Defining Options for
Strategic and Operational Change Training Course*

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Development *Alternatives*, Inc.

The **Accelerated Microenterprise Advancement Project (AMAP)** is a four-year contracting facility that USAID/Washington and missions can use to acquire technical services to design, implement, or evaluate microenterprise development, which is an important tool for economic growth and poverty alleviation.

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Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
AMAP	Accelerated Microenterprise Advancement Project
DAI	Development Alternatives, Inc.
ECI	Ebony Consulting International
EGAT	Economic Growth, Agriculture and Trade
FHI	Family Health International
HBC	home-based care
HIV	human immunodeficiency virus
MIS	management information system
MFI	microfinance institution
MFRC	Microfinance Regulatory Council (of the Republic of South Africa)
NGO	nongovernmental organization
OI	opportunistic infection
PAR	portfolio at risk
PLWA	person living with AIDS
STI	sexually transmitted infection
TB	tuberculosis
VCT	voluntary counseling and testing
WOCCU	World Council of Credit Unions

Foreword

HIV/AIDS affects all people and all businesses. The economic and financial impact of HIV/AIDS can seriously hamper the operations of many businesses, even those with substantial resources. Microfinance clients, and the institutions that serve them, are particularly susceptible given the limited resources that the poor have to cope with any major financial crisis. For microfinance institutions (MFIs), HIV/AIDS is one of the many factors that can negatively affect them and put significant financial and operational pressure on their limited resources. Because it influences staff, clients, and the institution's portfolio, HIV/AIDS's negative effects can create numerous pressures on an institution trying to maintain or achieve financial and operational self-sufficiency. If ignored, HIV/AIDS can ultimately compromise an MFI's operations, profitability, and long-term viability. Thus, MFIs, like other types of businesses, must perform some critical analysis and planning to mitigate the impact that the disease has both on the MFI's target market and on its own operations.

Over the past few years, MFIs in many countries have begun implementing changes to help them mitigate the impact of HIV/AIDS. These changes have required significant buy-in at high levels of the organization, analysis of the institution and its clients, and the foresight and strategic planning to implement new activities that will strengthen the MFI's performance in this difficult environment. Institutions have had to look critically at their client base, their external environment, their risk management strategies, their trends in their financial performance, the appropriateness of their products and services, and their staff and the trends related to staff productivity and expense.

This manual was developed in conjunction with the Microfinance and HIV/AIDS: Defining Options for Strategic and Operational Change training course, drawing on course's curriculum and themes. This manual functions as a companion toolkit to the course—to go the next step and provide MFI managers with a series of tools to evaluate, plan, and implement new interventions around HIV/AIDS. In this manual, we focus on four themes:

- § How to evaluate and write an action plan for implementing new changes within the MFI that focus on addressing the financial impact of HIV/AIDS;
- § How to develop workplace programs for MFI staff including workplace policies;
- § Which financial indicators to monitor to understand how HIV/AIDS is affecting the institution's portfolio, deposit base, clients, and staff; and
- § How to refine financial products and services in line with changes demanded by clients or required to retain affected clients while maintaining strong financial performance.

The designers of this guide and the training course believe that institutions in medium and high prevalence HIV/AIDS environments will find this useful to their planning processes. The course and the guide make recommendations for institutional changes to preserve MFIs and their client base. This guide is intended to give direction to MFI managers in assigning responsibilities to specific people and making them accountable for the responsibilities,

determining realistic time frames for carrying out proposed activities, and finding and establishing relationships with partners that can be of assistance to the MFI in achieving its goals.

Also note: this is the first version of the guide. We plan to update and improve as it is used. Please feel free to send us your comments and suggestions for improvement and update by email. Send updates to Colleen Green, AMAP FSKG Director, at colleen_green@dai.com.

1 Developing an Action Plan to Address HIV/AIDS

As a follow up to the Microfinance and HIV/AIDS: Defining Options for Strategic and Operational Change training course, the following action plan format was developed to assist MFIs in undertaking the next planning steps. The attached action plan format lays out a framework for planning and implementing necessary activities that will assist in mitigating the impact of HIV/AIDS on an MFI, with the aim of ultimately ensuring the long-term financial viability of the MFI.

A critical piece of this action plan is commitment and approval of all the activities within the action plan by the MFI's Board of Directors. We recommend the creation of a Board resolution that states the Board's acknowledgement of HIV/AIDS, its impact on the institution, and its intent to pursue changes. The resolution should state the institution's commitment to mitigating the financial impact of HIV/AIDS, name the responsible person(s) for implementing new activities and changes, and provide the Board's commitment to monitor results and deadlines. The Board must make this commitment with the understanding that this will not be a lone activity, but rather a permanent ongoing commitment and investment.

In developing the action plan, managers should also refer to Module 6 of the Defining Options course. Module 6 provides an assessment exercise to determine an institution's readiness and capacity for change, and a stocktaking exercise for determining priority areas with respect to HIV/AIDS. MFIs can use both of these exercises as starting points for preparing the action plan.

1.1 Board Resolution

To its action plan, the MFI should a resolution from its board of directors that:

- § Acknowledges the impact of HIV/AIDS on the microfinance institution, its staff, and its clients;
- § Briefly describes the institution's intent to undertake new activities to address the impact of HIV/AIDS on various elements of the institution;
- § Provides concrete activities and outputs that the institution would like to achieve with deadlines for completing them; and
- § Cites the person or persons within management who are responsible for implementing the activities and the board member who will monitor progress toward meeting the objectives and deadlines.

PRO FORMA BOARD RESOLUTION

This document serves as proof that the board acknowledges that HIV/AIDS may be having and impact on the staff and/ or customers of the MFI, due to observing the following:

[List impacts or trends observed]

Due to the current and/or expected future impact of HIV/AIDS on our staff and customers, it is suggested that this be addressed through a variety of activities. In order to achieve an impact with these activities and meet set objectives, certain people will need to be responsible for leading the process and carrying out specific activities within the planned timeframes. The following activities are suggested, with associated people responsible and planned timeframes indicated.

Proposed activity	Person responsible	Planned due date	Reason for proposed activity

Signed: _____

Date: _____

Detailed Action Plan by Activity

For their action plan, MFIs should fill out Table 1: Detailed Action Plan by Activity with the activities that it realistically can and will undertake with respect to mitigating HIV/AIDS. (Note: Table 2 has been provided as an example.) The categories included in the matrix are provided as guidance for potential activities that an MFI might undertake. Other activities may certainly be included. Additionally, Table 2 may suggest assignment of responsibilities to managers or other individuals that do not exist in all MFIs. These assignments should be considered based on the size and structure of the MFI developing the plan.

Table 1: Detailed Action Plan by Activity

Priority HIV/AIDS-Related Interventions	Expected Outcome or Output from Activity	Person Responsible for Implementing	Financial and Human Resources Required	External Contacts Required (Including AIDS Support Organizations)	Deadlines for Completion
ACTIVITIES FOCUSED ON THE INSTITUTION					
Review of existing data: § Loan portfolio § Delinquency and write offs § Savings § Client drop out § Staff absenteeism § Staff benefit expenses § Client survey/focus group information (if available) § Other					
Tracking select financial performance indicators					
ACTIVITIES FOCUSED ON CLIENTS					
Market research on clients					
Product refinement § Loan products § Savings/deposit products § Insurance § Other					
HIV/AIDS education for client (credit plus education)					
ACTIVITIES FOCUSED ON STAFF					
Workplace programs § HIV/AIDS education for staff § Workplace policy development around HIV/AIDS § Referral systems for staff § Other					
Other activities					

Table 2: Example of a Detailed Action Plan by Activity

Priority HIV/AIDS-Related Interventions	Expected Outcome or Output from Activity	Person Responsible for Implementing	Financial and Human Resources Required	External Contacts Required (Including AIDS Support Organizations)	Deadlines for Completion
ACTIVITIES FOCUSED ON THE INSTITUTION					
Review of existing data: § Loan portfolio § Delinquency and write offs § Savings § Client drop out § Staff absenteeism § Staff benefit expenses § Client survey/focus group information (if available) § Other	Review of absolute values and trends of the listed variables. Present to senior management.	Credit Manager	20 working days of his/her time	None	15 January 2005
Tracking select financial performance indicators	Design MIS reports that enable the regular tracking of the above mentioned variables with greater ease	MIS Manager in conjunction with credit manager	60 working days	None	28 February 2005
ACTIVITIES FOCUSED ON CLIENTS					
Market research on clients	Conduct approx. 30 focus group discussions with clients around areas identified in the existing data analysis e.g. drop outs (reasons for drop outs), product satisfaction, financial needs, etc	Marketing or R&D Manager	50 working days for research manager for planning, preparation, group set-ups, discussion guide design, training, conducting the FGDs and writing up the report. Plus an additional 2 staff members for 15 working days to assist.	None	28 February 2005
Product refinement § Loan products	Analyze the FGDs report and the	Marketing Manager/Credit	Once research findings are in the	MicroSave	15 April 2005

Priority HIV/AIDS-Related Interventions	Expected Outcome or Output from Activity	Person Responsible for Implementing	Financial and Human Resources Required	External Contacts Required (Including AIDS Support Organizations)	Deadlines for Completion
§ Savings/deposit products § Insurance § Other	report on the existing data and financial ratios analysis to determine whether client needs are being met from a product and service perspective. Draw up a plan to modify and align products to meet ever-changing customer needs better.	Manager	analysis could take up to a month. Product development of new products is a very lengthy and costly activity. Where small modifications can be made, this is recommended. Apply a reasonable timeframe during the planning process.		
HIV/AIDS education for clients	Identify a few local HIV/AIDS service providers. Approach a couple for ideas around communications with customers. Request a quotation as well if necessary.	Credit Manager	20 days.	Family Health International, AMREF, local/national government secretariat for HIV/AIDS and UNAIDS	28 February 2004
ACTIVITIES FOCUSED ON STAFF					
Workplace programs § HIV/AIDS education for staff § Workplace policy development around HIV/AIDS § Referral systems for staff § Other	Identify local service providers will specialize in workplace activities to assist MFI with the development of own program Again approach a few for	HR Manager	20 days + \$\$	TBD	28 February 2005

Priority HIV/AIDS-Related Interventions	Expected Outcome or Output from Activity	Person Responsible for Implementing	Financial and Human Resources Required	External Contacts Required (Including AIDS Support Organizations)	Deadlines for Completion
	suggestions or even formal proposals on what they would suggest within your MFI for staff.				
Other activities					

2 Implementing HIV/AIDS Workplace Programs

2.1 Introduction

An MFI cannot operate in isolation of HIV/AIDS as it affects its clients as well as its employees; these negative effects directly and indirectly compromise the operations and profitability of the MFI. This section will help MFIs to assess the effects of HIV/AIDS on the workplace and will provide MFI managers with practical and appropriate guidelines for addressing HIV/AIDS among staff. It also provides a variety of appropriate HIV/AIDS workplace interventions for MFIs to use with the assistance of specialized HIV/AIDS service providers.

2.2 Should Your Institution Be Considering a Workplace Program?

Not all MFIs will be able to develop comprehensive HIV/AIDS workplace programs. To determine which interventions are appropriate and worthwhile for the institution, an MFI should take into account the following important considerations:

Workplace Program Implementation Decision Points

1. What is the size of the staff? If the MFI staff consists of fewer than 10 people, it will be quite difficult to implement many of the suggested activities.
2. Has the MFI conducted a cost/benefit analysis of implementing a workplace program? Are staff members being affected by HIV/AIDS? That is, have there been increased absenteeism, higher staff turnover, increased illness, and death amongst staff? Will staff productivity and expenses improve in the long term with the inclusion of a workplace program? If the costs of implementing a program outweigh the benefits to the institution in the long term, an MFI should not attempt this workplace program.¹ Many of the proposed activities may not be appropriate for every MFI. MFIs should select activities that make sense with the assistance of a local service provider.
3. Are the MFI management and Board fully informed about the implications and costs—upfront investment and ongoing—of carrying out a workplace program? Are the management and Board fully committed to the implementation process? If not, the MFI should not embark on this activity. The management/Board **MUST** make a firm pledge of support to this process.

2.3 A Comprehensive Workplace Program

This section suggests various activities that an MFI can carry out with the assistance of a specialized HIV/AIDS service provider. MFIs must consider the costs of each of these activities when designing the MFI workplace program. The planning table later in this section provides

¹ Module 5C of the Defining Options course provides a simple costing tool to examine a variety of potential costs of a workplace program.

information on which costs need to be considered, how they will be covered, and who can be collaborated with to share some of these costs. A comprehensive HIV/AIDS workplace program² should include all of the following activities:

- § Ongoing HIV/AIDS education and awareness programs, including Living Positively;
- § Condom education and distribution at easily accessible points in the workplace;
- § A referral system for or database of HIV/AIDS service providers (nongovernmental organizations (NGOs), private, or public) providing the following services:
 - Additional HIV/AIDS information;
 - Sexually transmitted infection (STI) diagnosis and treatment;
 - Treatment for opportunistic infections (OIs), such as tuberculosis;
 - Voluntary counseling and testing (VCT) with necessary support thereafter;
 - Mitigation services for counseling, community support, and home-based care (HBC), and;
- § Creation, dissemination, and ongoing revision of a company policy on HIV/AIDS.

The aim of a workplace program that addresses HIV/AIDS is to create an environment that allows the employee, irrespective of his or her HIV status, to make the right choice in terms of access to HIV/AIDS (and STI/OI) prevention, treatment, and care services on an ongoing basis. Typically, the workplace policy will develop and evolve following the implementation of the first three steps above.

Developing a database of or referral to local HIV/AIDS service providers that afford effective HIV/AIDS prevention, treatment, care, and support services to MFI staff is an important, effective way to prolong the staff's economically productive years. These service providers can include various NGOs, government or private hospitals, and clinics and national AIDS programs addressing various aspects of education, testing, counseling, treatment, and care. In addition, MFI staff may require some legal services to address inheritance rights, orphan care, and wills. Linking staff to other providers allows the MFI to focus on its core business of financial service provision, while addressing the effect of HIV/AIDS on their staff and their families directly and indirectly.

To assist MFIs, or a strong local microfinance network organization, a few guidelines on how to develop this database follow:

² Developing appropriate HIV/AIDS interventions at this level draws on the ECIAfrica's experience in effectively implementing HIV/AIDS workplace programs for small and medium-sized enterprises in South Africa (Tourism Enterprise Program funded by the Business Trust).

Guidelines in Establishing a Referral Database

- § Talk to colleagues in other MFIs, in parent/partner organizations, or with the national microfinance network or association about the HIV/AIDS support organizations with which they work;
- § Ask local health and social service authorities;
- § If you receive donor funding, speak with your donor representative about accessing resources for HIV/AIDS prevention, care, and treatment;
- § Talk to NGOs that deal with HIV/AIDS and health issues;
- § Look in the media for groups that address HIV/AIDS;
- § Consult with national AIDS programs;
- § Investigate whether any subsidized legal service organizations exist within your environment; and
- § Perform an extensive Internet search.

Source: Modified from Workplace HIV/AIDS Programs.³

In addition to this referral database, a truly effective workplace program will also address HIV/AIDS in employee families by encouraging staff to discuss HIV/AIDS with their families. The referral system will enable staff and their families to access public, private, and NGO services to meet education, testing, counseling, treatment, and care needs.

2.4 Assessing the Risks Associated with HIV/AIDS within Your MFI

While all MFIs in high and medium prevalence countries are affected by HIV/AIDS, some businesses are more at risk than others are. The extent of the risk depends on the nature of the operations carried out by the business, the prevalence rate of potential partners, and the associated sexual lifestyle of the staff. Some questions to consider when assessing an MFI staff's potential risk of infection are:

- § Are a large number of the staff migrant workers who live without their families or away from their home communities?
- § Do staff stay in communal housing while away from home where they may have the opportunity to engage in risky sexual practice?
- § Are staff members relatively well paid in an area where poverty and high levels of unemployment are prevalent? (Wealth places staff in a power position economically, and may increase the probability of engaging with sex workers.)
- § Do staff travel long distances and make overnight trips on a regular basis to fulfill their duties⁴?
- § What is the HIV/AIDS prevalence rate in the communities surrounding the MFI or MFI branches? (The higher the prevalence rate of the population, the higher the risk is of HIV infection among staff.)

³ Workplace HIV/AIDS Programs, written by Bill Rau and published by Family Health International, was drawn on extensively in the documentation of this toolkit.

⁴ In some environments, extensive travel away from home can lead to increased risky sexual activity. Understanding whether or not staff members practice safe sexual behavior will also add to an MFI's risk assessment.

- § Is there a policy that discourages internal sexual/social relations? (I.e. a policy that indirectly discourages staff to engage in social relationships e.g. ‘If two employees marry, one of the spouses would have to leave the MFI’. Such a policy would reduce internal relations and therefore the spread of HIV/AIDS within MFI staff.)

- § Is the country undergoing rapid economic change?

To establish whether the MFI’s productivity is being affected, MFIs can monitor specific indicators such as absenteeism, employee turnover, medical costs, personnel productivity, company benefits, and disruption of service provision⁵.

In addition to these staff-related indicators, MFIs can also perform financial monitoring to check the impact of HIV/AIDS on an MFI’s portfolio, repayment, and institutional capital. This area will be addressed in a separate section.

2.5 Workplace Policies

Workplace HIV/AIDS policies form an integral part of the workplace program. An HIV/AIDS workplace policy provides a consistent, standard document of employees’ rights and the employer’s obligations within the workplace in addressing HIV/AIDS. This policy should be consistent with the relevant labor and constitutional laws of the country.

Although workplace policies form an integral part of HIV/AIDS workplace programs, they would be inappropriate in institutions that do not already have staff/employee policies. An HIV/AIDS policy should become a part of existing staff policies—rather than be a stand-alone document. If an MFI does not have staff policies, an HIV/AIDS policy may be too formal. In this instance, it is suggested that an HIV/AIDS strategy or plan—rather than policy—be drafted.

For staff to understand their rights, it is important for basic HIV/AIDS education to take place in the workplace as a starting point. This education will enable MFI staff to engage in an informed dialogue with management around the policy, so that it is reflective of their needs.

Listed below are some of the basic principles of the Code of Practice set forth by the International Labor Organization:

- § *Recognition of HIV/AIDS* as a workplace issue.
- § Commitment to creating an environment of *non-discrimination* for workers who are HIV positive—based on the constitutional rights of employees. The policy should clearly state that discrimination against and stigmatization of people living with HIV/AIDS (PLWHA) inhibits efforts to promote HIV/AIDS prevention and can lead to disruption in the workplace.
- § Commitment to promoting *gender equality*—discrimination against and exploitation of woman can promote the spread of HIV/AIDS.
- § Commitment to creating a *safe, healthy work environment* as defined by existing legislation—basic conditions of employment and occupational health and safety laws.

⁵ Other mechanisms for gathering data, such as interview and focus groups, are captured in Module 3 of Defining Options.

- § Commitment to promoting *social dialogue* among all stakeholders within the workplace to ensure successful implementation of interventions;
- § *Mandatory HIV/AIDS screening is unnecessary* and inappropriate. Employees should not be screened for HIV/AIDS for the purpose of employment exclusion. Instead, MFIs should encourage employees to obtain a voluntary and confidential HIV test and pre and post-test counseling off-site. Knowing one's status has been effective in living positively.
- § Inclusion of clear guidelines regarding *confidentiality*, recognizing HIV/AIDS related stigma and discrimination within the workplace and ensuring compliance with existing laws concerning disclosure. HIV/AIDS screening for the purposes of exclusion from employment or work process is inappropriate and unconstitutional in most countries.
- § Inclusion of clear guidelines for ensuring *job security* or continuation of the employment relationship should an employee choose to disclose his or her status. As with many chronic conditions, people with HIV-related illnesses should be able to work as long as medically fit.
- § Description of intended ongoing *prevention efforts* that will be carried out in the workplace.
- § Description of the plan for the effective *implementation* of the adopted program, including periodic refresher courses.

Communication of the policy and plan to MFI staff and leadership is vital for achieving a de-stigmatized workplace, and will promote the program's sustainability.

2.6 Workplace Activities

The aforementioned elements that contribute to a comprehensive HIV/AIDS workplace program are not applicable to every MFI, particularly smaller MFIs. Smaller businesses have more limited resources and are limited in the types of services they can provide their employees. The following is a checklist from the *Workplace HIV/AIDS Programs* action guide.⁶ The checklist will help MFIs to establish which activities they are best suited to and whether they should be doing them on their own or making use of other resources. The table provides the opportunity to plan the needed resources involved and to set realistic timeframes for implementation. An important element of this planning process is identifying and linking with partners that can provide some of these services and may be able to share some or all of the implementation costs. Some of these activities may be too costly for the MFI to consider, but are listed here to illustrate what large institutions may consider given their resources.

⁶ Workplace HIV/AIDS Programs, written by Bill Rau and published by Family Health International.

Table 2: Planning the HIV/AIDS Workplace Activities

The ideas suggested here would almost all be conducted by specialized HIV/AIDS service providers—not by the MFI itself. All should not be attempted, but rather carefully selected according to the MFI needs. See also Module 5C of the Defining Options training.

HIV/AIDS RELATED WORKPLACE ACTIVITY	MFI does this and will continue to do so	MFI will consider this or plans to do so	MFI will do or consider this but is unlikely to manage it itself	MFI is unlikely to do this	Potential local partner	Cost and potential funder/s	Human resource within MFI responsible for this activity	Due date
1. An ongoing education program with								
1a. Up-to-date written materials for employees—myths, prevention methods, testing, living positively								
1b. Occasional information presentations								
1c. Information about responsible sexual behavior								
1d. Information about confidentiality and non-discrimination								
1e. Information about the MFI's HIV/AIDS policy and changes in policy								
1f. Information about STIs and opportunistic infections, information where services are available								
1g. Information on posters within the MFI for both staff and client education								
1h. Information about universal precautions within the workplace								
1i. Incorporating HIV/AIDS topic in senior management meetings, staff meetings, workshops etc								

HIV/AIDS RELATED WORKPLACE ACTIVITY	MFI does this and will continue to do so	MFI will consider this or plans to do so	MFI will do or consider this but is unlikely to manage it itself	MFI is unlikely to do this	Potential local partner	Cost and potential funder/s	Human resource within MFI responsible for this activity	Due date
2. Training for selected staff								
2a. Peer educators								
2b. Supervisors/worker safety representatives								
2c. Worker support groups								
2d. Manager peer groups								
3. Condom education and distribution								
3a. Employees will be educated on proper use—myths, consistent and correct use, planning, etc.								
3b. Employees will have ready access to a regular supply of male condoms								
3c. Employees will have ready access to a regular supply of female condoms								
3d. Distribution points will be set up in the workplace								
3e. The program will include informative materials on correct condom use								
3f. The MFI will order condoms								

HIV/AIDS RELATED WORKPLACE ACTIVITY	MFI does this and will continue to do so	MFI will consider this or plans to do so	MFI will do or consider this but is unlikely to manage it itself	MFI is unlikely to do this	Potential local partner	Cost and potential funder/s	Human resource within MFI responsible for this activity	Due date
4. STI diagnosis and treatment⁷								
4a. Referral to clinical facilities close to the MFI with the required trained clinical staff, with a regular supply of the necessary drugs and equipment and the required privacy and confidentiality.								
5. Counseling, HIV testing, and support								
5a. The MFI will hire trainers to train staff as peer counselors within the MFI and offer them the necessary support in their role as counselors								
5b. The MFI can obtain HIV testing materials information on test protocols, laboratory quality assurance, and government recommendations or refer staff to nearby testing facilities								
5c. Partner identified to carry out counseling and testing for staff who demand it								
5d. Privacy and confidentiality procedures are assured								
5e. Post-test counseling will be provided by the testing facility								
5f. The MFI will encourage support groups								

⁷ An MFI should not undertake an activity under points 4 through 6 without the assistance of an AIDS support organization or healthcare provider.

HIV/AIDS RELATED WORKPLACE ACTIVITY	MFI does this and will continue to do so	MFI will consider this or plans to do so	MFI will do or consider this but is unlikely to manage it itself	MFI is unlikely to do this	Potential local partner	Cost and potential funder/s	Human resource within MFI responsible for this activity	Due date
5g. Home-based care is covered or referral to NGO care facilitated								
5h. Supervisors are trained in managing on-the-job situations of HIV-positive employees								
6. HIV/AIDS/tuberculosis (TB) treatment and care								
6a. The MFI will offer (some/all) employees/ dependents antiretroviral treatments for HIV infection or refer staff to free government clinics								
6b. The company will offer (some/all) employees/ dependents access to treatment for all opportunistic infections related to HIV/AIDS, such as TB OR refer staff to free government facilities OR provide staff with a medical insurance benefit that provides for this treatment								
6c. The MFI will provide benefits to employees who are HIV positive								
6d. The MFI will ensure access to HIV prevention drugs for pregnant employees and dependents Or refer them to free facilities								

2.7 Plan for the Way Forward

1. Decide on whether or not it is appropriate to embark on a workplace activity within the MFI. Carry out a cost benefit analysis to determine whether proposing a workplace program makes sense for the MFI.
2. The MFI's management and Board should make a clear commitment to any new activities that address HIV/AIDS in the workplace.
3. Establish which HIV/AIDS workplace activities the MFI is currently facilitating and which activities the MFI may add to the workplace program.
4. Establish the MFI's limitations in addressing HIV/AIDS in the workplace—the MFI is not a health care organization and should not take on activities outside its core competency areas.
5. Carry out an analysis of the costs of various services to determine what the MFI is able to afford. Where possible, establish partnerships with entities that can cover some of this cost.
6. Draft a document outlining the planned activities with timeframes for each activity. Make sure to assign responsibility for each activity and formally incorporate this into staff performance objectives or job descriptions. A Board member should also be responsible for monitoring the MFI's overall progress on implementing new activities.
7. Identify and form partnerships with organizations that can assist in achieving the plan—locally based HIV/AIDS service providers. This is particularly important for small MFIs. Develop a database for easy referrals. The national MFI association/network organization may be able to instigate this referral database/mapping process. Referring staff to these services, may not result in follow through; staff should be encouraged to use the services with assistance of peer support groups or counseling.
8. Provide regular updates on progress to staff and management.
9. Determine how these activities will be carried out on a regular basis by scheduling regular activities and keeping the program alive. Assign responsibility for this.

3 Using Financial Impact Monitoring within the HIV/AIDS Context

3.1 Introduction

HIV/AIDS is one of many factors that can negatively affect an MFI's performance. Many MFIs track several or at least a few financial ratios to assist them in monitoring their performance. One of the challenges facing MFIs in tracking these ratios is the having the necessary management information systems (MIS) to enable their calculation or to store the information needed to calculate the ratios.

This section is designed to assist MFI managers and Boards of Directors establish how HIV/AIDS potentially affects these ratios and the financial performance of the MFI. The ratios need to be considered holistically since HIV/AIDS does not influence the MFI in isolation. Other external or internal environmental factors must be considered. The expected influence of HIV/AIDS on each of these indicators is shown in Table 3 at the end of this section.

This exercise will help users to establish:

- § What ratios are currently calculated and monitored?
- § Who monitors them and how often?
- § Do both management and the board monitor ratios and other financial statements?
- § What ratios are not being calculated and monitored? Why?
- § What ratios to track in future? How?
- § How will new ratios be added and tracked by the MFI? Who will be responsible for it?

However, monitoring these ratios and trends in these ratios over time in isolation, is not enough. Many factors can affect the performance of an MFI negatively, HIV/AIDS only being one of them. It is therefore important to also track non-financial information where possible about your customers but also about the population at large. Some suggestions are made regards these additional variables below the table of financial ratios.

The following broad categories of ratios are illustrated in this toolkit. Not all will apply to the MFI, as ratios vary depending on the core financial service offered. The sources drawn on in developing this toolkit are provided in the bibliography at the end of this document.

- § **Profitability/Sustainability:** Reduced/Non-profitability is usually reflective of other areas of poor performance. To understand why an MFI is profitable or not, these ratios need to be considered along with the other ratios.
- § **Productivity and Efficiency:** These ratios are indicators for how well an institution streamlines its operational activities. Efficiency ratios include costs, while productivity looks

at output compared to input. Specific ratios will provide direct information to the institution on the impact of HIV/AIDS, such as the personnel expense ratio.

- § **Asset Quality:** The largest risk for any financial institution is its loan portfolio quality. The quality of the loan portfolio is usually difficult to measure. The most commonly used asset quality ratio in the microfinance industry is **portfolio at risk (PAR)**, a comparison of past due loans to the entire portfolio. The industry best practice is a 30-day PAR; that is, the outstanding balance of all loans with payments 30 days past due and rescheduled loans compared to the entire portfolio balance outstanding.
- § **Growth/Outreach:** These ratios are used to establish how fast the portfolio and the MFI are growing over time. These ratios also consider asset growth of the MFI.
- § **Financial structure/management:** Financial management ratios are tracked with the objective of ensuring that the MFI has sufficient liquidity to meet its financial obligations, to pay out savings deposits and to fund loans.

3.2 Top Eleven Ratios

Many MFIs already track several financial ratios to assist in monitoring their development. These ratios can be influenced by many internal and external factors. One of these is HIV/AIDS. The following ratios, which the MFI may already be tracking, can:

1. Help the MFI identify that HIV/AIDS is having an impact on the institution, and
2. Assist in mitigating risks that the MFI may face if an impact is identified.

The following ratios are used to **identify the risk** of HIV/AIDS effect on the MFI clients and staff.⁸

- § Write off ratio,
- § PAR,
- § Operating expense ratio,
- § Drop out rates/client retention,
- § Personnel productivity,
- § Personnel expenses, and
- § Growth in savings portfolio.

Once a risk is identified, the MFI must perform further research engaging clients and staff to develop a plan for **mitigating the risks**. These ratios are particularly important in terms of ensuring that the MFI is able to continue its key function—providing financial services to the poor—even with the added challenge of HIV/AIDS:

- § Portfolio yield,
- § Loan loss provisions,

⁸ These ratios are discussed at length in Module 5A of the Defining Options training.

- § Liquidity, and
- § Capital adequacy.

These 11 ratios, plus a few additional common ratios, are included in Table 3, a matrix that MFIs can use to assess ratios in their institution.

Table 3: Ratio Assessment within HIV/AIDS Context

Name of ratio	Calculation	Expected changes due to HIV/AIDS	Do you currently track this ratio using MIS?	If not, could the MIS track this ratio?	Who is responsible for making the necessary changes to enable this to be tracked?	Due date for completion of the MIS modification?
Ratios used to identify HIV/AIDS effect on MFI clients and staff:						
Portfolio at risk	Outstanding balance in arrears > 30 days + Total gross outstanding refinanced (restructured) portfolio / Total outstanding gross portfolio					
Write off ratio	Value of loans written off / Average gross portfolio					
Operating expense ratio	Operating expenses / Average gross loan portfolio					
Drop out rate	Active clients at end of period / (Active clients at beginning of period + New clients during period)					
Personnel productivity	Number of active borrowers (clients) / Total staff					
Loan officer productivity	Number of active borrowers (clients) / Number of loan officers (front-end staff)					
Personnel expenses	Personnel expense / Operating expense					
Savings growth	Year on year savings growth					

Name of ratio	Calculation	Expected changes due to HIV/AIDS	Do you currently track this ratio using MIS?	If not, could the MIS track this ratio?	Who is responsible for making the necessary changes to enable this to be tracked?	Due date for completion of the MIS modification?
Ratios used to assist in risk mitigation through monitoring and improving risk position:						
Portfolio yield	Cash financial revenues / Average gross portfolio					
Liquidity	Cash and liquid assets / Total deposits (or liabilities to the public)					
Capital adequacy	Total capital / Total risk weighted assets					
Risk coverage ratio	Loan loss reserves / (Outstanding balance of loans affected by arrears over 30 days + Rescheduled loans)					
An additional product specific analysis that may prove useful in understanding changing client needs:						
Loan size analysis	Average initial loan size vs. Outstanding loan book					

The additional variables that may be helpful in possibly assigning the cause of the poor performance to HIV/AIDS are as follows:

- § Trends in death rates of customers over time;
- § In conjunction with death rates, the age of customers that are dying;
- § The cause for death as per the death certificate and/or information provided by family members;
- § Trends and reasons for customer drop outs, and;
- § National, regional or local prevalence and incidence statistics.

This list can be expanded as our experience in this field grows and as MFIs experiment more around additional proxy variables for illness or infection. The value of monitoring these ratios and variables is drastically enhanced with analysis over time and when not carried out in isolation.

3.3 Trend Analysis

Ratios have very little use if trends over time are not monitored. Changes over time are more easily identified if the MFI creates a standard report or document that includes several periods of ratios. This ratio trend analysis can assist identifying and mitigating risks. However, these ratios do not tell the whole story; an MFI will need to do further investigation with its clients and staff to determine if HIV/AIDS is a factor.

3.4 Plan for the Way Forward

1. Establish which ratios the MFI is already tracking on its MIS;
2. Determine if these are automatically generated by the MIS or another mechanism;
3. Determine who reviews the ratios and how often; determine who should monitor the added new ratios, such as management and the Board;
4. Determine what additional ratios the MFI should be monitoring;
5. Determine actions when review of ratios and financial statements requires MFI action to adjust problem;
6. Conduct further investigations with staff and clients to determine why performance or indicators are changing;
7. Find out whether any constraints exist to monitoring the additional ratios on MIS;
8. Determine who is responsible for driving this process and who will be making the actual modifications to the system, and;
9. Assign reasonable timeframes to achieve these MIS modifications.

4 Product Refinement in Response to HIV/AIDS

4.1 Introduction

Some of the greatest risks facing microfinance institutions (MFIs) are portfolio quality, their ability to cover bad debts, and if the institution mobilizes savings, the threat of dwindling savings and institutional capital. HIV/AIDS affects MFI clients and will have an effect on the loan portfolio over time. One of these effects is due to the changing demand for financial products because of the financial pressures that HIV-affected households face. This section aims to provide MFIs with some guidelines on how to refine products so that they are more responsive to clients within the context of HIV/AIDS. This toolkit does not advocate for the development of products that specifically target the HIV positive market, but rather that the MFI be more responsive to their existing clients' changing needs.

4.2 Background

According to Jill Donahue et al.,⁹ product or service development and refinement should capitalize on the clients' ability to:

- § Plan for future crises (anticipate needs for lump sums of cash);
- § Improve and maintain income flows;
- § Avoid selling productive assets, which would undermine future income earning capacity; and
- § Retain access to financial services, particularly post-crises.

Understanding these elements of a client's needs can be very helpful in the product refinement process. Additionally, seeking to understand clients' economic coping strategies can lead to the development of new products that reflect clients' needs and values.

Donahue et al advise that, MFIs and HIV/AIDS service advisors and support organizations can best respond to HIV/AIDS by building on their respective institutional and technical strengths. Agencies that implement HIV/AIDS health-based and social projects are not equipped to support client income generation as they do not have the systems, education, and experience. Likewise, MFIs should not draw away from their core business expertise in response to the broad ranging social and medical impacts of HIV/AIDS. Instead, MFIs need to focus on what they know in order to meet clients' financial needs in a sustainable manner. Indeed, well established MFIs may have the ability to go beyond providing credit to include other financial services in their product range such as insurance, savings, and different types of loans.

Research has shown that the two most important individual resources for responding to a crisis are 1) savings or easily liquidated assets, and 2) business volume or diversity in business

⁹ "HIV/AIDS - Responding To a Silent Economic Crisis Among Microfinance Clients in Kenya and Uganda." Jill Donahue, Kamau Kabbucho, and Sylvia Osinde, MicroSave-Africa (Sept. 2001).

activities. Clients surveyed also preferred mechanisms that provided regular and reliable access to lump sums of cash that do not negatively affect their future income earning capacity.¹⁰

MFIs should not specifically target HIV/AIDS infected or affected people. Explicit targeting compromises the integrity and sustainability of their services and their institutions. Client loan groups can absorb some losses, but concentrating the potential for defaults within loan groups undermines their viability. Targeting AIDS affected or infected individual clients can undermine the viability of the institution. In addition, targeting client segments within a broader clientele with preferential loan terms or products tends to increase stigma when others feel that they also warrant special consideration.¹¹

4.3 Understanding the Financial Pressure and the Changing Financial Needs of Your Clients

In product development, the most fundamentally important concern is to understand the MFI client's product needs. In this way, MFIs can develop demand driven, rather than supply driven, products. Demand driven products that are reflective of client needs are typically rewarded with better portfolio performance due to client satisfaction.

In the HIV/AIDS environment, client needs tend to change because households face different economic crises. It is important to note that MFI clients may face different stages of the life cycle simultaneously—thus, the MFI must be aware of the total life cycle. Each phase has different associated financial pressures as described below and then illustrated in Figure 1¹²:

Phase 1: In the *early stage* of the illness, financial pressures on the household are still low because the HIV-positive person is economically active. The individual may remain asymptomatic for 7 to 10 years before showing signs of weakened health or chronic fatigue. Household income and expenditure patterns remain relatively unchanged during this period.

Phase 2: As opportunistic *infections first appear*, the person requires medication and increasingly frequent clinic or hospital visits. The sick person's productive capacity declines, which affects household income. A caregiver, often a close relative, typically accompanies the sick person to the hospital, resulting in temporary losses of income for the caregiver as well. This period may last from 6 to 12 months.

Phase 3: The sick person is eventually forced to stop working (or close his or her business) due to *increasing bouts of illness and hospital visits*. Loss of income from the infected person exerts increased financial pressure on the household. Medical expenses escalate. The caregiver spends more time with the infected person, which results in increased absenteeism at work or prevents him or her from operating the business, further eroding household income.

To meet this decline in income and increase in cash requirements for medical expenses, households sell non-productive assets, draw upon social capital, or borrow in some form (a cash

¹⁰ Ibid.

¹¹ Ibid.

¹² "The effect of HIV/AIDS on the micro-finance sector in South Africa." A literature review, conducted by ECIAfrica Consulting, April 2002.

loan, pledges of labor, or pledges of future product) to avoid diverting business income or selling productive assets. Food consumption is likely to decline. Deposit-making behaviour stops and savings may be liquidated. School fee expenditures may be shifted to medical expenses causing children, often girls, to be pulled out of school.

Phase 4: With the onset of severe opportunistic infections, the sick person is *bedridden*, usually at home. This stage lasts between 6 and 12 months. Expenses for medical treatment increase and instant cash is often needed. At this stage, poorer households may have already exhausted most of their economic resources, and may resort to liquidating productive assets to cover expenses. Income deteriorates as the caregiver closes the business or stops working to attend full time to the sick person. This is the stage where there is most concern about the household becoming over-indebted to meet the repetitive and growing medical requirements.

Phase 5: The *death* of the infected household member results in a permanent loss of income for the household, and represents the peak financial household pressure point. The household incurs funeral and mourning costs. If the household belongs to a burial society, the stipend will reduce the financial burden of the funeral expenses as they are shared among family members or the community. Children may be forced to work to compensate for lost household income or be removed from school to save on educational expenses.

Phase 6: The additional pressure of *fostering and caring for AIDS orphans* after the death is usually borne by a family member, often an elderly grandparent. The financial pressure of this stage depends on the level of care and schooling provided to the fostered children. Anecdotal evidence across the seven most-affected African countries now report that on average families may have three or more foster children.

Figure 1: Life Cycle of Financial Pressure on HIV/AIDS Affected or Infected Clients

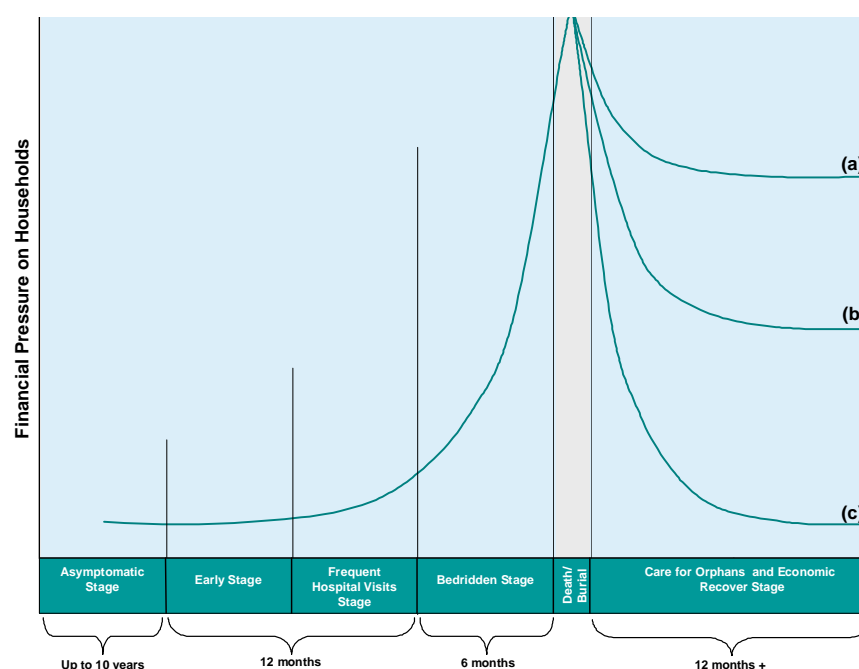


Figure 1 illustrates the six phases in the progression of the illness. It shows how financial pressure increases with each phase of illness. The final stage, “care for orphans and economic recovery,” indicates three possible outcomes. Path C represents the best-case outcome, where the family is able to return to their previous economic status, though it may take a year or more. Path A is the worst-case scenario, where the family cannot recover despite the end of medical and funeral costs because of depleting their safety net. Path B is somewhere in the middle. Drawing from Donahue et al (2001) and Sebstad and Cohen (2000), the ability of the household to pursue path B or C depends upon two factors: 1) pre-crisis economic diversification and asset building, and 2) avoidance of irreversible coping strategies—those that cause long-term economic damage to the household—during the crisis period.

The MFI must consider this disease life cycle in the context of their product offering. Table 4 breaks down pre- and post crisis ideas on how to modify existing products so that they are more responsive to client needs. MFIs may need to consider a number of different product modifications that may be appropriate to meet the diversity of client needs at various stages of the crisis. See also Modules 3 and 5B in the Defining Options course.

Table 4: MFI Roles and Suggested Refinements for the HIV/AIDS Crisis Cycle

Crisis-cycle stage	Microfinance role	Suggested MFI refinements
Before an HIV/AIDS related crisis occurs	<ul style="list-style-type: none"> § Encourage clients to build up savings and assets. § Teach and require financial discipline and planning for future lump sum cash needs. § Make networks more accessible (both social and economic) through group associations and improving relations with the community at large. § If MFI provides non-financial or advisory services (business development services), assist clients to increase business volume or diversify business activities (vertical or horizontal growth). If this is something that the MFI does not currently do, do not draw away from core business focus to do so. 	<ul style="list-style-type: none"> § Fluctuate loan sizes and terms to coincide with ebb and flow of clients' business cycles throughout the year such that clients can take out larger loans when market demand is high and their business volume is greatest. Then, when the purchasing power of the marketplace shrinks, clients would return to smaller loan amounts to reflect reduced volume. This pattern is especially relevant for clients in communities where their customers' cash income is tied to agricultural cycles. § Spread interest out over the loan period (for MFIs that charge interest up-front) as opposed to requiring clients to pay the entire amount of interest up-front even before loan begins to generate a profit for the business. § Encourage savings by (a) paying out interest¹³ on voluntary savings; (b) allowing more frequent access to both voluntary and compulsory savings that are not collateralizing the loan; and (c) linking groups with banks in which they can save—if the MFI is reluctant to take on the additional cost or administrative burden, or is legally unable to intermediate savings. Linkages are already within easy reach of MFIs given that most clients already service their loans through commercial banks. Some MFIs, already link their clients to banks for savings that exceed mandatory amounts. § Educate clients on the benefits of saving. To encourage savings, MFIs using the group methodology will need to allow clients who are in crisis to stay within the group without taking a loan and to continue to save without taking a loan. If loans are made on an individual basis, savings should be encouraged through appropriate mechanisms. § Seek out linkages to business development service organizations in the interest of stimulating the growth of clients' businesses. § Where a group lending methodology is used, adapt orientation sessions to include discussions about how the groups and individuals will handle crises, particularly but not exclusively, when they are HIV/AIDS related. In individual lending situations, this communication with clients is more difficult; MFIs will need to create innovative opportunities to communicate this idea.

¹³ However, paying out interest rates will only be possible for those institutions that are legally authorized to intermediate voluntary savings for their clients.

Crisis-cycle stage	Microfinance role	Suggested MFI refinements
Beginning to middle of crisis <i>(Early stages and Frequent hospital visits)</i>	§ Make acquisition of lump sums convenient by providing loans that are repaid in installments. § Allow clients to draw on voluntary and compulsory savings to respond to financial pressures. § Lend to the affected rather than the infected. § Allow flexibility in loan sizes and terms so that the client can manage their financial situation better, through smaller more manageable loan repayments.	§ If a group lending methodology is used, allow clients to miss meetings as long as they make loan installment payments . It is possible that frequent absences of different group members could undermine the group guarantee mechanism. However, some MFIs have been able to exercise this type of flexibility without adverse consequences. § Allow child or spouse to take over business or run business with sick person. Encouraging groups to allow a substitute to attend meetings is important in succession planning. § Again, with group lending, allow clients to rest between cycles without pushing them out . This implies changing an MFI's incentive system. Most MFIs tag loan officer incentives to the number of active loans and outstanding loan balances. This design puts pressure on the loan officer to force clients to take out a loan or exit. This pressure can lead to delinquency—because the client feels compelled to take a loan that he or she is not ready for—or loss of a trusted client with an established credit history—because clients exit rather than take a loan they feel they will have trouble repaying. Keep good records of clients that temporarily take a rest cycle so that their credit history is retained.
Height of crisis <i>(Bedridden)</i>	§ At the beginning of a cycle, the client may divert the loan to cover lumps sum needs for cash rather than using it for their business activities. § Client may exit MFI to access the savings when involuntary savings are collected as part of the group agreement.	§ In a group lending methodology, encourage informal, group-based coping strategies that reduce financial pressure . It is in the MFIs' interest to pay attention to which informal coping strategies are effective and why. They can then encourage their clients to use effective strategies so that when crisis strikes, the individual crisis does not severely undermine group cohesion and group performance within the MFI. An example of this is more flexible loan terms and sizes in the group. § Educate clients about the value of not cashing out their insurance when they are under pressure . Some clients may be tempted to do so to meet short term needs, but life insurance has far more value to the household when it is paid out at time of death—when the policy reaches maturity. § Consider allowing relatives to take over the loan/savings services once a client becomes bedridden or dies. Another household member may become the breadwinner once someone is bedridden or dead. This allows for the opportunity for the household to benefit from the credit history of the deceased or ill family member.
After <i>(Death and Care for orphans)</i>	§ If client caregiver/ successor to the business maintained his or her creditworthiness, he or she rejoins and uses credit to restore her business and “bounce back.”	§ Allow clients to take out smaller loans without fear of penalties . After a crisis, many clients want a smaller loan than they had previously. Some MFIs allow clients affected by a crisis to move up through the loan cycles quickly once they return. For others, the client has to work their way up again if they opt for a smaller loan. To avoid this, some clients end up taking a larger loan than they can handle. § Where only short term loans are available, allow longer loan terms so clients can spread smaller loan payments over a longer period—perhaps with reduced interest rates. The organization would need to build in controls so that this does not become the norm for those not affected by crisis.

4.4 A Caution on Refining Products

MFIs should not undertake product development and modification without first conducting thorough market research, including monitoring financial performance and data collection from staff and clients. MicroSave and other international microfinance network organizations have developed good toolkits for undertaking product development and refinement. Please review these before proceeding. For more information on MicroSave's various toolkits, including pilot testing, market research, product development, product marketing and so on, visit www.microsave.org.

4.5 Plan for the Way Forward

1. Consider carrying out ongoing market research and focus group discussions with existing clients to establish their preferences. Some basic tools are available in Module 3 of the Defining Options training. Additionally, MicroSave provides MFIs with tools on how to carry out product-related qualitative research with clients.
2. Consider each product in the MFI's product line within the context of an economic crisis and see how flexibility can be enhanced in terms of catering to lump sum financial needs and the changing demands for financial services, while still maintaining strong financial discipline.
3. Determine how the MFI can encourage clients to build up their savings and a relatively liquid asset base, within their legal framework/ constraints.

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Accelerated Microenterprise Advancement Project

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